

September 30, 1999

The Honorable John D. Dingell  
Ranking Democratic Member  
Committee on Commerce  
U. S. House of Representatives  
Washington, D. C. 20515-6115

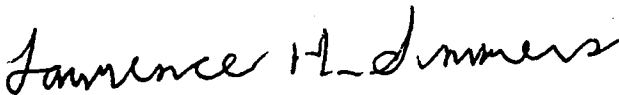
Dear Mr. Dingell:

We are pleased to enclose our response to your letter of May 18, 1999, in which you requested that the President's Working Group on Financial Markets address several issues relating to the Year 2000 date rollover that were raised in an April 1999 study by the General Accounting Office. Our response provides a comprehensive summary of recent domestic and global initiatives.

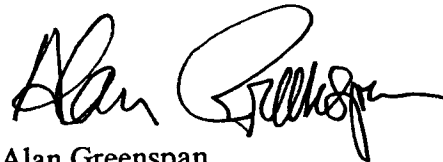
In addition to the agencies represented by the undersigned, other agencies that participate in the President's Working Group, including the Federal Deposit Insurance Corporation and the Office of Thrift Supervision, contributed significantly to this report. We are grateful for their extensive support on this project.

Please let us know if we can be of any further assistance.

Sincerely,



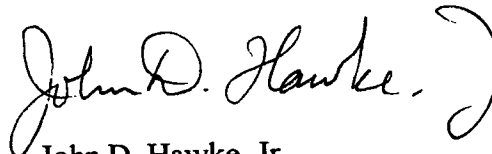
Lawrence H. Summers  
Secretary  
Department of the Treasury



Alan Greenspan  
Chairman  
Board of Governors of the Federal Reserve  
System



Arthur Levitt, Jr.  
Chairman  
Securities and Exchange Commission



John D. Hawke, Jr.  
Comptroller  
Office of the Comptroller of the Currency



William J. Rainer  
Chairman  
Commodity Futures Trading Commission

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Enclosure

cc: The Honorable Tom Bliley, Chairman  
Committee on Commerce

The Honorable Michael G. Oxley, Chairman  
Subcommittee on Finance and Hazardous Materials

The Honorable Edolphus Towns, Ranking Member  
Subcommittee on Finance and Hazardous Materials

The Honorable David M. Walker, Comptroller General  
U.S. General Accounting Office

**Response of  
The President's Working Group on Financial Markets  
to Congressman John D. Dingell**

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This paper was prepared in response to a letter dated May 18, 1999, from Congressman John D. Dingell, Ranking Member of the House Commerce Committee, to the President's Working Group on Financial Markets (PWG). The Congressman's letter concerned the April 1999 report, *Year 2000: Financial Institution and Regulatory Efforts to Address International Risks*, which was prepared at his request by the U.S. General Accounting Office (GAO). The GAO reported on the international risks related to the Year 2000 and the progress being made to address those risks. The Congressman requested that the PWG report to him on the progress in addressing three particular areas noted in the GAO report as requiring continued attention, and also that the group advise him of any significant changes in the conditions reported by the GAO.

This response is framed around four questions that reflect Congressman Dingell's requests:

1. What progress is being made in preparing systems for supervisors and others in the domestic and global financial sector to exchange information and coordinate prior to, and during, the millennium rollover?
2. What has been done to encourage and achieve better disclosure by foreign organizations about their readiness for the millennium rollover?
3. What progress has been made in designing strategies to communicate the financial sector's readiness (with a view to alleviating concerns among members of the public)?
4. What are the significant changes, if any, in the conditions reported by the GAO in its report dated April 27, 1999?

Today's global financial markets require cooperation and close coordination among financial sector supervisors and central banks, both within countries (including inside the U.S.) and across borders. Coordination will be especially important in the remaining months of 1999 and early 2000, as financial organizations and markets deal with the Year 2000 challenge. Excellent progress continues to be made to avoid serious problems within the global financial markets. Despite that progress, it remains possible that some problems will arise as a result of inadequate preparation on the part of foreign institutions and/or key infrastructure<sup>1</sup> components, foreign or domestic. As Congressman Dingell pointed out in his letter, vital elements of national and international cooperation to minimize this risk will include the development of effective coordination mechanisms, open and complete disclosures about readiness for the Year 2000, and the development of clear communication strategies. The responses that follow outline a number of significant steps taken, and being taken, by the U.S. financial market supervisors and their foreign counterparts to ensure effective cross-border cooperation on the Year 2000 challenge.

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<sup>1</sup> The term "infrastructure" is defined for these purposes as the basic elements needed to ensure national continuity, including telecommunications, utilities (power, water), government systems, financial systems, medical services, and transportation.

**1. What progress is being made in preparing systems for supervisors and others in the domestic and global financial sector to exchange information and coordinate prior to, and during, the millennium rollover?**

Considerable progress is being made at several levels of the public and private sectors to develop and coordinate national and cross-border Year 2000 event management and communication strategies. Much of this progress is the direct result of the leadership provided by the financial system regulators in the United States.<sup>2</sup>

Supervisors are exchanging information and coordinating supervisory efforts on several key issues, including developing *best practices* for information exchange and event management, defining principles for *national and cross-border communications strategies*, and developing effective *mechanisms for exchanging critical information* during the Year 2000 rollover.

**Best Practices for Event Management** - The International Y2K Cooperation Center, the Joint Year 2000 Council, the Basel Committee on Banking Supervision, the Basel Committee's Y2K Task Force, and the Global 2000 Co-ordinating Group are all actively promoting the development of "best practices" on event management and information exchange, as well as international contact lists. U.S. financial system regulators have been instrumental, by providing leadership and resources, in bringing the efforts of these groups together. As a result of these collaborative efforts, bank supervisors, central banks and securities regulators in the U.S., the United Kingdom, Germany, Japan and other major developed countries are focusing on coordinating contingency plans, understanding the requirements for information exchange at national and international levels, and establishing and coordinating event management strategies, both domestically and internationally.

**National Communications Strategies** - International financial market authorities are currently defining the principles for national communication strategies for financial sector supervisors, including contacts among bank supervisors, central banks, securities regulators, supervised institutions, investment firms, payment and settlement systems, and national coordinators. Authorities have also developed and shared strategies for communicating with the domestic financial sector and the general public.

**Cross-border Year 2000 Communications Strategies** - International financial market authorities are defining the principles for cross-border communications strategies among supervisors, including a structure for multilateral communications, as well as the timing, frequency and content of multilateral communications. A consensus has emerged among international supervisors that cross-border communications on Year 2000 issues will take three forms. The three forms are:

- cross-border exchanges of status information, provided by self disclosure;

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<sup>2</sup> Even though U.S. financial market authorities provide leadership and resources internationally, the United States does not assume responsibility for, nor guarantee the readiness of any industry or country. That responsibility falls to the leadership of industries and countries.

- bilateral issue resolution where more sensitive information and issues affecting two supervisors are addressed directly by those parties; and,
- multilateral communications for identifying and resolving issues where multiple supervisors are affected.

**Year 2000 Information Exchange Mechanisms** - As much as possible, international market authorities will use normal decision-making processes and information flows during the Year 2000 transition. But, working within the *Joint Year 2000 Council*,<sup>3</sup> those authorities are also establishing, as an element of international event management, a centralized communications services program to facilitate cross-border information exchange, decision-making, and problem resolution. This program will facilitate the collection and exchange of information between the appropriate financial market authorities. Important components of the program include a centralized platform for the timely provision of accurate information to international financial market authorities, pre-arranged and ad hoc conference calls among financial market authorities, and up-to-date and comprehensive supervisory contact lists. These efforts by the Joint Year 2000 Council are described below in more detail.

**International Cooperative Organizations** - Cross-border cooperation and coordination is occurring globally among a number of international organizations with which the U.S. supervisory agencies are working.

*The International Y2K Cooperation Center (IY2KCC)*<sup>4</sup> is beginning to serve as a coordinating body for national Year 2000 coordinators around the world. Its efforts to link such bodies as the President's Council on the Year 2000 Conversion with counterparts globally are not confined to the financial sector, but are directed to all public and private sector components, including important elements of the public infrastructure.

IY2KCC has gathered representatives of key international organizations to coordinate practical steps to address contingency planning for the millennium rollover and strategies for emergency responses in key sectors. IY2KCC has also established an electronic network of more than 106 national Year 2000 coordinators to share information.

*The Joint Year 2000 Council (Joint Council)* has undertaken a number of initiatives aimed at prompting action within the financial sector's global regulatory community. Among its many activities, the Council has published papers, bulletins and advisories to assist supervisors; has

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<sup>3</sup> The Joint Council, established in April 1998, is composed of representatives from, and is sponsored by, the Basel Committee on Banking Supervision, the G-10 Central Banks' Committee on Payment and Settlement Systems, the International Organization of Securities Commissions, and the International Association of Insurance Supervisors.

<sup>4</sup> The International Y2K Cooperation Center was created under the auspices of the United Nations in February 1999, with funding from the World Bank's *infoDev* program. Its mission is to promote cooperation and action among governments, peoples, and the private sector to minimize adverse Year 2000 effects on the global society and economy. The Center's operations are overseen by a Steering Committee consisting of the Chairman of the United Nations Working Group on Informatics (H. E. Ambassador Alunad Kamal, Permanent Representative of Pakistan to the United Nations), selected national coordinators (including the U.S. national coordinator, John Koskinen, who chairs the President's Council on the Year 2000 Conversion), and the Manager of the World Bank's *infoDev* program (Carlos A. Primo Braga).

established, and now maintains, a global database of key Year 2000 contacts; is sponsoring regional meetings for financial market supervisors to share Year 2000 event management strategies and discuss appropriate regional communication processes; is working with the International Y2K Cooperation Center; and serves as a contact point for coordinating the international contingency planning efforts of the global financial supervisory community.

The Joint Council's sponsoring organizations have prepared and distributed guidance papers for supervisory authorities in their respective sectors, including:

Year 2000: The Supervisory Contingency Planning Process, prepared by the Y2K Task Force of the Basel Committee on Banking Supervision.

Year 2000 Contingency Planning for Overseers of Payment and Settlement Systems, prepared by the Committee on Payment and Settlement Systems.

Year 2000 Contingency and Continuity Planning by Securities Regulators: A Checklist, prepared by the International Organization of Securities Commissions.

Year 2000 Contingency Planning for Insurance, prepared by the International Association of Insurance Supervisors.

With the support of the U.S. financial market supervisors, coordinated through the Financial Sector Group of the President's Council on the Year 2000 Conversion, the Joint Year 2000 Council is presently developing an event management plan to ensure effective cross-border communication between financial market authorities and others before and during the rollover period. The Council is planning to establish by September 30<sup>th</sup> a "*Market Authorities Communication Services (MACS)*" network for cross-border regulatory communications among bank supervisors and securities regulators. Under the plan, the Council's Secretariat at the Bank for International Settlements (BIS) in Basel will provide an Internet web-based information-sharing platform to complement financial market authorities' (FMAs) existing bilateral and multilateral communications conventions. A pre-arranged program of FMA conference calls will complement this platform. The multilateral conferences will occur at pre-determined frequencies over the transition period, and will provide FMAs in major markets an opportunity to exchange "state of the market" reports.

The plan will be tested during the 4<sup>th</sup> quarter of 1999. Its key principles are:

- The supervisory community will need real time communication ability, but must take care to ensure that information exchanges add value.
- Information needs that are likely to be recurring must be identified in advance.
- Where possible, cross-border communications should leverage off existing processes of international and regional supervisor groups.

- Communications must include “wellness” reports to manage rumors and communicate significant disruptions.<sup>5</sup>
- Cross-border disruptions among individual financial institutions should be dealt with under the normal bilateral procedures and contacts that exist between “home country” and “host country” regulators.

As envisioned by the U.S. FMAs, MACS will operate parallel with the Information Coordination Center (ICC) in the United States, which is sponsored by the President’s Council on the Year 2000 Conversion. The U.S. representatives who will staff the ICC on behalf of the Financial Sector Group will develop reports about the financial sector for the President’s Council, as well as for MACS.

*The Basel Committee on Banking Supervision*<sup>6</sup> sponsors a *Y2K Task Force* made up of representatives of member countries’ bank supervisory bodies. The mission of this task force is to promote awareness, information sharing, and coordination among bank supervisors on the Year 2000 challenge.

The U.S. bank supervisors led the Basel Committee Y2K Task Force’s development of a June 1999 paper on *Year 2000 Public Communication Strategies for Bank Supervisors*. This paper was distributed globally to bank supervisory authorities and advised them to develop public communication plans to reinforce, as appropriate, the public’s confidence in banking systems.

The Y2K Task Force has prepared two additional papers, Year 2000 Cross-border Communications Between Supervisors During the Millennium Period and Gathering Year 2000 Supervisory Information from Financial Institutions: Recommendations for Supervisors. The purpose of the first paper is to identify cross-border communication conventions for the international bank supervisory community. It establishes the following key principles for cross-border communication among bank supervisors:

- Supervisors need to leverage off existing supervisory communications structures, such as the Basel Committee, the Joint Year 2000 Council and regional bank supervisor groups.
- Supervisors should keep structures for information-sharing small and simple, and should recognize a need for flexibility to accommodate priorities and information needs that differ from country to country.

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<sup>5</sup> The term “disruption” is defined for these purposes as the production of inaccurate data, the inability to execute a transaction, or the inability to continue functional operation.

<sup>6</sup> The Basel Committee on Banking Supervision is a committee of bank supervisory authorities established by the central bank Governors of the Group of Ten countries. It consists of senior representatives of bank supervisory authorities and central banks from Belgium, Canada, France, Germany, Italy, Japan, Luxembourg, the Netherlands, Sweden, Switzerland, the United Kingdom, and the United States.



- Supervisors should leverage off the regulatory components of event management plans already developed by the private industry, including components developed by the Global 2000 Co-ordinating Group, to set up cross-border conventions for bilateral and multilateral information sharing.
- Supervisors should identify, in advance, their needs for cross-border communications regarding institutional "wellness," market and systemic issues, and communications with national coordinators.
- Supervisors should prepare event management contact lists of bank supervisors, which the Basel Committee Secretariat will maintain and update throughout the balance of 1999.

The second paper contains guidance for supervisory reporting by financial institutions, including recommendations for prompt "exception" reporting to their respective supervisors.

The Basel Committee is currently distributing both papers to bank supervisors globally by the end of September.

*The G-7 Group of Bank Supervisors* is active in exchanging views on Year 2000 issues, with emphasis on supervisory planning and event management within each jurisdiction and across borders. The group is also discussing liquidity issues, bank holidays, lessons learned from the introduction of the Euro, and communications among bank supervisors. This group last convened on June 7 at a meeting hosted by Federal Reserve Governor Roger Ferguson and plans to meet again on October 22 at the Financial Services Authority in London. The group will also continue to promote cross-border information sharing and event management coordination through the Joint Year 2000 Council and the Basel Committee on Banking Supervision.

*The Year 2000 Contingency Planning International/Payment Systems Subgroup* of the *Federal Financial Institutions Examination Council (FFIEC)* is facilitating interagency information sharing, analysis and coordination on international Year 2000 preparedness and risk issues affecting the U.S. financial system. The subgroup, which includes representatives from the Federal Reserve, Office of the Comptroller of the Currency (OCC), Federal Deposit Insurance Corporation (FDIC) and Office of Thrift Supervision (OTS), meets monthly and helps coordinate the agencies' joint involvement in cross-border Year 2000 event management and communication activities. The subgroup shares information on international Year 2000 preparations and associated risk analyses developed by each member agency. Consistent with existing interagency information-sharing conventions, the subgroup uses the Global Year 2000 Database developed by the OCC to facilitate information flows and risk analysis.

*The Global 2000 Co-ordinating Group*<sup>7</sup> (G2000) has prepared a Risk Mitigation and Event Management Plan. The plan includes eleven recommendations for private and public sectors

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<sup>7</sup> The Global 2000 Co-ordinating Group, which represents 508 institutions in 68 countries, is an industry-derived organization of financial firms (primarily bank and investment firms) that are internationally oriented and largely

to help mitigate potential financial market disruptions. These recommendations cover issues such as liquidity (at both the institutional and market levels), payment and settlement activity, market contingency planning, changes in trading and dealing conventions during the change-over period, cross-border event management coordination and communication, and coordinated regulatory reporting requirements.

With respect to cross-border coordination and communication, the Global 2000's Plan includes recommendations for:

- an interface between the regulatory community and the private sector, thus enhancing communications and the process for resolving issues;
- cross-border regulatory communication mechanisms, to enhance the quality of regulatory responses to cross-border issues and the response time;
- a process for resolving cross-border issues at progressively higher levels of authority, as needed;
- coordinating cross-regulatory reporting requirements for firms;
- cross-border status reporting; and
- implementing communication strategies at firm, industry, and national levels.

The G2000 plan was presented at an International Year 2000 Roundtable hosted by the Joint Year 2000 Council and the BIS on July 1, 1999, in Basel. It was discussed further in Hong Kong on July 21<sup>st</sup> – 22<sup>nd</sup> and in Basel on September 1<sup>st</sup> and September 14<sup>th</sup> in conjunction with meetings of the Basel Committee Y2K Task Force. At these meetings, bank supervisors focused on the G2000 recommendations for efficient and effective supervisory reporting by financial institutions.

*The Securities Industry Association (SIA)* has established an *International Operations Panel* to facilitate communications between major cross-border users and providers of financial service operations.

*The Futures Industry Association (FIA)* has used its chapters in the United Kingdom and Japan, and parallel organizations in other countries, to facilitate cross-border communication in the futures industry. For instance, it completed a survey in June of the contingency plans of 19 futures exchanges, 5 domestic and 14 foreign. The survey was presented at the FIA Year 2000 Forum on Contingency Planning, held in London, England on July 1, 1999. Survey results were also posted to the FIA's website. The FIA also has posted to its website the Year 2000 holiday schedules of domestic and foreign futures exchanges (open or closed Dec. 31<sup>st</sup> and January 3<sup>rd</sup>), and Year 2000 contact information for 27 futures exchanges.

In 1997, the *International Organization of Securities Commissions (IOSCO)* began issuing communiqués urging its members and market participants to take appropriate action to address Year 2000 issues. More recently, IOSCO has been acting through its membership on the Joint Council to encourage communications and contingency planning in the global

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private sector. The group's goals are to normalize market activity as much as possible in the weeks leading up to, and during, the Year 2000 event, and to facilitate cross-border communications and resolution of issues.

securities industry. In particular, IOSCO is urging its members to participate in the MACS program (described above), and has thus far received numerous favorable responses.

**2. What has been done to encourage and achieve better disclosure by foreign organizations about their readiness for the millennium rollover?**

International pressure continues to build for better disclosure about the readiness of countries' financial systems, infrastructure components, and their private sectors. Regulators and government officials emphasize that disclosure is the key to establishing confidence in the readiness of individual businesses and countries, and maintaining confidence in global financial systems. In the absence of adequate disclosure by countries, or sectors or businesses within them, businesses and investors from other countries (out of an abundance of caution) will avoid or otherwise decrease their exposures. The importance and benefits of disclosure, and the consequences of not disclosing, are messages that are repeated and echoed consistently and regularly by credible public and private sector organizations that are charged with promoting readiness for the Year 2000. Important examples are:

- *Treasury Secretary Rubin* wrote to the heads of the International Monetary Fund (IMF), the World Bank, and the multilateral development banks (MDBs) in September of last year about the Year 2000 problem. The Secretary urged those organizations to include Year 2000 issues in their ongoing dialogue with member countries; urged their country teams to offer views about sectors considered most vulnerable to the Year 2000 problem; and even suggested that agencies require that all computer systems purchased in connection with a project loan be certified as "Year 2000 compliant" as a condition of that loan. The World Bank, with its *infoDev* Program, has been proactive. The World Bank has hosted two one-day conferences in Washington for Chief Information Officers of sister agencies and MDBs to exchange views and compare notes on their respective Year 2000 efforts. A third conference is expected to take place around the time of the IMF/World Bank Annual Meetings in the early autumn. Disclosure of Year 2000 readiness is discussed regularly at these conferences.
- In December 1998, the *Joint Year 2000 Council* published a paper entitled Year 2000 Information Sharing and Disclosure, emphasizing the need for market participants and market infrastructure operators to disclose information about the status of their Year 2000 preparations and testing results. Information disclosure was a theme discussed in regional meetings the Council sponsored last Fall with financial market regulators from over 100 countries.
- The *Y2K Task Force of the Basel Committee* continues to sponsor workshops for regional bank supervisors around the globe. In the first half of 1999, Task Force members (including senior representatives from the Federal Reserve, Federal Deposit Insurance Corporation and the Office of the Comptroller of the Currency) conducted regional Year 2000 workshops for bank supervisors in Africa, the Caribbean, Eastern Europe, Latin America, the Middle East, Russia, and Southeast Asia. The workshops focused on issues of Year 2000 preparedness that are important to bank supervisors and central banks, including the importance of disclosures by countries and organizations within them.

- The *President's Council on Year 2000 Conversion* established two high-level Interagency Working Groups (IWG) at the beginning of this year to deal with Year 2000 issues -- the Domestic Y2K IWG and the International Y2K IWG. The mission statement for the International Y2K IWG acknowledges that information on international vulnerabilities is incomplete and that the U.S. does not have the ability or resources to control or direct Year 2000 preparations in foreign countries. Despite these constraints the affected federal agencies and the International IWG are working with private industry to collect and share relevant information and develop remediation and contingency strategies. In addition, the President's Council sponsored a tri-lateral meeting with financial market authorities and central banks of the U.S., Mexico and Canada earlier this year to discuss contingency planning issues.
- At the urging of Secretary Rubin, the agenda for the *G-7 Ministers and Governors Meeting* (April 26, in Washington) included issues covering Year 2000. Paragraph 14 of the statement issued after the meeting addressed the issues directly. Among other related matters, Ministers and Governors expressed agreement that governments, central banks, regulatory bodies and private sectors need to fully disclose the status of their preparations for Year 2000. The Ministers and Governors requested that each G-7 country prepare a statement on Year 2000 readiness and preparations of its critical sectors for the Economic Summit in Cologne, Germany (subsequently held in June, 1999.)
- As part of the *Economic Summit in Cologne, Germany*, the U.S. and four other G-7 countries (Canada, Italy, Japan and the UK) submitted Year 2000 statements to each G-7 member. The objectives were to increase public awareness of the Year 2000 problem, build public confidence that governments and private sectors were seriously addressing Year 2000 problems, and cast G-7 countries as role models for other nations in terms of disclosing preparations and contingency arrangements for the millennium rollover.
- Officials of the Departments of the Treasury and State collaborated to produce a strong *G-8 Statement on Year 2000*. The statement, released on June 20, emphasized that transparency and disclosure about Year 2000 preparations and planning are crucial for public confidence going into the millennium. The statement urged governments, international organizations, and providers of infrastructure and information technology to ensure a regular flow of reliable information to the public. The G-8 statement further urged non-G-8 countries to take similar steps.
- Over 170 countries attended a *Second United Nations 'Meeting on Y2K'* held in New York, June 21-22, 1999, which was led by Year 2000 country coordinators. One objective of the meeting was to obtain commitments from countries to publicly disclose their status and plans for Year 2000, including contingency and disaster response plans. Seventy-nine countries have responded to a readiness survey conducted by the International Y2K Cooperation Center. In addition, 53 countries have created informative Y2K websites in English, according to the Center.
- Interested private sector organizations are publicizing survey results. For example, the *Securities Industry Association*, in conjunction with the *International Operations*

*Association*, developed and distributed a “scorecard” of survey results to 650 foreign and international financial services firms and institutions, including stock and futures exchanges, regulators, global depositories and clearing corporations, brokers, and banks. Also, the *Global 2000 Co-ordinating Group* is publicizing readiness assessments of countries’ infrastructure components, including financial sectors. These publications are creating pressure among countries with unfavorable assessments to quicken their pace and disclose the facts of their readiness. The Global 2000 Co-ordinating Group’s Country Readiness Reports have prompted improvement in some countries’ disclosure and information-sharing efforts.

Analyses by regulators and banks show considerable improvement in the quality of Year 2000 readiness information disclosed by countries. In turn, the private sector and financial regulators are observing a growing level of confidence in the readiness of the global financial system, which is considered by most observers to be the best prepared of any industry sector. But clearly, some countries lag in disclosing the extent of their readiness.

Information about Year 2000 readiness varies considerably from country to country. The best information comes from countries with strong Year 2000 oversight programs that are coordinated nationwide (e.g., the U.S., U.K., and Australia.) Better information is also now coming from other advanced countries and large financial organizations. In addition, there are growing indications that adequate contingency plans and resources will be in place in the major markets to quickly resolve any unexpected problems that might arise.

Even though Year 2000 readiness disclosure has, overall, improved greatly in recent months, it is still incomplete in less-developed countries and in some industrialized countries. A significant number of key country sectors exist where information is not available. Generally, readiness information that is reliable remains sparse about the telecommunications, transportation, energy, and water sectors of less-developed countries. Most countries that are considered high risk for Year 2000 disruptions are emerging nations with public sectors that have been very slow to address the Year 2000 problem. Generally, these countries lack the resources and/or organizational capability to manage Year 2000 issues. Disclosure of information from those countries is comparably poor.

### **3. What progress has been made in designing strategies to communicate the financial sector’s readiness (with a view to alleviating concerns among members of the public)?**

The President’s Council on the Year 2000 Conversion issued its 3<sup>rd</sup> assessment report in August. The report recognized the financial sector as leading all other sectors in terms of Year 2000 readiness. The report received considerable publicity and media attention. The U.S. federal financial regulatory agencies also have worked together over the past year to inform the public about the financial sector’s Year 2000 preparations.

#### Banking Supervisors

The U.S. federal banking supervisors are employing a simple communications strategy premised on the following: the more people know about Year 2000 and banking, and about the efforts of

both the industry and the regulators, the more comfortable they will be. Public confidence will be strengthened by regular, consistent, and clear communications. To this end, the bank regulatory agencies have:

- *Formed an interagency communications team*, consisting of the agency principals from the Federal Reserve, Federal Deposit Insurance Corporation, Office of the Comptroller of the Currency, Office of Thrift Supervision, and the National Credit Union Administration, to communicate to the public the status of the banking industry's Year 2000 preparedness and other important information. This team is working to communicate reliable and assuring information. Joint and individual media events and other activities are planned throughout the remainder of the year. In addition, a joint Year 2000 video, featuring the heads of each agency responsible for Year 2000, is being incorporated into each agency's outreach events. It will be shown in bank lobbies.
- *Published a pamphlet, The Year 2000 Date Change*, which is available in English and Spanish. Trade associations have distributed more than 12 million copies of the pamphlet to financial institutions for further distribution to their customers. These materials are also available to the public at no charge and are accessible through the websites of the agencies and the Federal Financial Institutions Examination Council (FFIEC). The FFIEC website provides an abundance of information for depositors and consumers.
- *Issued a Year 2000 Customer Checklist*, which provides steps that each person can take to help reduce or eliminate problems that might occur as a result of the century date change.
- *Contracted with the Gallup Organization* to survey the American public during the first quarter of 1999. The survey provided information that not only helped the agencies gauge the effectiveness of customer awareness campaigns to date, but will also help financial institutions plan future educational efforts, and help the regulators refine their communication strategies.
- *Participated in Year 2000 outreach events*, including the "Community Conversations" sponsored by the President's Council on the Year 2000 Conversion, to respond to concerns and questions from communities and residents about the millennium rollover and the banking industry.
- *Prepared two documents on Year 2000 fraud awareness* for financial institutions and their customers. The Year 2000-Related Fraud Prevention guidelines encourage financial institutions to alert their customers about fraudulent schemes involving the century date change and to take additional necessary steps to enhance customer awareness, internal controls, and security. The Year 2000-Related Fraud Advisory provides some examples of potential Year 2000 frauds and outlines measures consumers can take to protect themselves from such schemes. Financial institutions have been encouraged to distribute this document to their customers.

The agencies have long understood the importance of providing factual Year 2000 information to the public. They have encouraged the financial institutions to do the same, noting that providing

meaningful information to customers should be an important part of institutions' Year 2000 project plans. Through numerous regulatory letters, the agencies have advised banks, savings associations, and credit unions about the importance of developing Year 2000 customer awareness programs. In addition, the agencies have strongly recommended that institutions make information available to their customers and the public about their progress and anticipated completion of preparations.

### Securities and Futures Regulators

Over the past few years, the Securities and Exchange Commission (SEC), the Securities Industry Association (SIA), and the National Association of Securities Dealers (NASD) have worked together to keep the public informed about the securities industry's preparations for the Year 2000. Initiatives undertaken by these organizations include:

- *Mandating the filing of publicly available Year 2000 readiness disclosures.* In 1998, the SEC adopted rules requiring affected broker-dealers, transfer agents and investment advisers to file reports describing the nature and status of their Year 2000 efforts. Any firm to which the rules apply is required to rate their Year 2000 readiness in such areas as remediation, testing, and implementation of mission critical computer systems, as well as the status of vendor readiness and contingency planning. Larger firms must also file a narrative description of their Year 2000 plans. In addition, in 1999, larger broker-dealers and non-bank transfer agents are required to file an assessment prepared by an independent public accountant of their Year 2000 compliance efforts. The required filings are public. Part I of the filing is available to the public at the SEC's website.
- *Providing advice and guidance to investors on the Year 2000 issue through the SEC's Office of Investor Education and Assistance (OIEA).* OIEA has held "town meetings" around the country for investors. Those meetings have included discussions on the effect of the Year 2000 problem on the securities industry, and the distribution of Year 2000 flyers prepared by the NASD.
- *Refining the SEC website* to offer investors a single place to find information on the Year 2000 problem, such as:
  - Questions for investors to ask about the Year 2000.
  - Frequently asked questions about SEC disclosure obligations related to the Year 2000 issue.
  - A searchable database that gives investors instant access to the Year 2000 mandatory disclosure filings of broker-dealers, non-bank transfer agents, and investment advisers.
  - Statements and testimony of the SEC's Chairman on the Year 2000 issue.
  - Rules requiring broker-dealers and non-bank transfer agents to achieve Year 2000 compliance by August 31, 1999, or certify and explain plans to achieve compliance no later than November 15, 1999.

- *Distributing SIA-prepared investor awareness brochures.* The SIA has prepared a pamphlet for distribution by brokerage and investment firms, entitled Y2K: What Every Investor Should Know. The pamphlet is designed to assure investors the securities industry as a whole is well prepared for Year 2000, and encourage investors to ask questions and obtain information about the status of the firms with which they do business.
- *Developing an investor communications program.* In conjunction with the SIA, the NASD published a Year 2000 Investor Kit to educate the public about Year 2000. The kit includes steps investors should take to help reduce or eliminate problems that might occur as a result of the century date change. In addition, NASD is developing a contingency plan in the event investor confidence levels decrease toward the latter part of 1999. Under the plan, the NASD, Federal Reserve System, SEC, New York Stock Exchange, and the SIA will coordinate on the use of ads, press releases, television and radio spots if mass media communication is necessary to allay the public's concerns about the status of the markets.

The Commodity Futures Trading Commission (CFTC) has worked with the National Futures Association (NFA) and the Futures Industry Association (FIA) to keep the public informed about readiness in the futures industry. The websites of the CFTC, NFA and FIA address Year 2000 preparedness. The CFTC's Year 2000 page provides updates on the CFTC program, including several advisories issued to instruct registrants how to meet their Year 2000 obligations, as well as links to other private and governmental Year 2000 websites containing consumer information.

The FIA website features information from each futures exchange relating to Year 2000 testing, and summarizes the results of the industry testing during 1999. The FIA is sponsoring ongoing industry meetings to facilitate communication between U.S. exchanges and firms concerning Year 2000 plans and readiness. On November 10-12, at its Futures & Options Exposition '99 in Chicago, the FIA will distribute an information package concerning industry readiness and event management. The Exposition is the largest futures industry event in the world. It showcases the latest products and services, and is visited by more than 4,000 people each year.

In addition, the banking, securities and futures market regulators who are members of the Financial Sector Group of the President's Council on Year 2000 Conversion sponsored a Year 2000 Summit on September 17, 1999, in Washington, D. C. That conference featured leaders in the financial sector as speakers and panelists. They conveyed the views and perspectives of regulators and market participants, and provided information about millennium transition management. The principals of the sponsoring agencies spoke about the readiness of the financial sector. The keynote speaker was Alan Greenspan, Chairman of the Federal Reserve Board; and the luncheon speaker was Arthur Levitt, Chairman of the SEC.

#### **4. What are the significant changes in the conditions reported by the GAO in its report dated April 27, 1999?**

*U.S. financial institutions* that are active internationally have largely completed their own remediation and testing, and assessing the readiness of their customers, business partners, and counterparties. They are now completing risk mitigation plans, executing some components of those plans, and testing and validating other components. Their plans include strategies to



manage or “work-around” exposures to those countries or organizations that experience disruptions prior to, during, or after the Year 2000 transition.

Regulators and the marketplace now view the *financial sector in most major countries*, including the U.S., as well prepared for the Year 2000. This is due to the active efforts of regulatory authorities, and unprecedented cooperation within the financial industry itself. Based on recent global tests, regulators and most market participants and analysts see a major breakdown in key countries’ large banks and financial market infrastructures, such as payment and settlement systems, as only a remote possibility. The general level of market confidence in large, internationally active banks, as well as advanced countries generally, continues to increase as more information about Year 2000 preparedness becomes available.

Most *large financial institutions in countries that reflect the greatest exposure to U.S. banks* are now completing external testing programs with key global exchanges and payment agencies. Further external tests with clearing and settlement organizations and central banks are scheduled throughout the third quarter of 1999. Tests of *global payments systems* in mid-June and mid-August, conducted by the New York Clearing House Association (NYCHA) and the Clearing House Interbank Payments System (CHIPS), involved most major banks and international payments systems (19 countries, 34 clearing/payment systems, 538 financial institutions) and extensive traffic. The tests were successful and demonstrated the Year 2000 preparedness of the major players in the global financial community. No Year 2000 problems were reported. Additional mandatory CHIPS tests are scheduled for October 23 and January 1, 2000.

Nonetheless, concerns remain about the readiness of (1) the financial sector in several small European markets; (2) key public and private institutions and the infrastructure in a number of developing countries (falling into this group are China, India, Russia and a number of developing countries in Central America, Eastern Europe, Africa and Southeast Asia); and, (3) small to medium size enterprises (SME) globally, including in the U.S. One risk is the potential for a “domino” systemic impact brought about by significant disruptions to these groups because of the millennium rollover.

The U.S. financial market authorities do not rate or rank nations on their preparedness for the Year 2000. They do, however, monitor publicly available sources of information regarding the progress of nations against internationally agreed timetables for achieving awareness and assessment of the Year 2000 issue, for repairing systems, and for testing and implementing solutions. This framework is similar to an assessment system developed by a private sector group of banks and securities firms, which assesses the degree of information and confidence about a country’s readiness on a sector-by-sector basis. Based on those assessments, countries generally fall into one of three categories: (1) those that have the awareness, resources, commitment, and organizational capability to deal with Year 2000 and which are doing so successfully; (2) a large middle group that has not demonstrated one or more of these attributes, but is still expected to substantially remediate most, but not all, of its systems in critical areas; and (3) a large number of emerging countries that have not demonstrated most of these attributes and are susceptible to Year 2000 problems. According to the World Bank, developing countries find it difficult to expend scarce resources on what is perceived to be an obscure and distant threat when other social and economic problems are more pressing.

The risk of Year 2000 disruption in the latter group of nations is somewhat troublesome, given that a number of the countries produce products and operate in industries on which industrialized countries (including the U.S.) depend. Of course, some of this risk is mitigated because many of these countries depend less on automation and information technology, and regularly cope with disruption of key infrastructure components. Nevertheless, the potential to disrupt regional or global economies is apparent.

The U.S. Commerce Department's International Trade Administration issued a report earlier this year on Year 2000 and the global economy: The Year 2000 Problem and the Global Trading System. The report points to the interconnectivity of world trade functions. The international trading system, with its complex web of suppliers, distributors, customers, and transportation links, is supported by a critical infrastructure of products and services. The most important components of the infrastructure are energy production and distribution facilities, transportation modes, communications channels, and financial networks. In many countries, these sectors are highly computerized and interdependent, and are particularly sensitive to date logic for supply chain logistics involved in the exchange of goods and services. These characteristics render them susceptible to problems related to the century date changeover.

Many of the countries that are the least prepared for the Year 2000 are important energy exporters. Any significant disruptions from the century date changeover that impact that industry locally could have a negative impact on the U.S. and global economies. For instance, Russia, Iran, Venezuela and Nigeria are among the world's top ten exporters of crude oil; Russia, Algeria, Indonesia, Turkmenistan, Malaysia and Uzbekistan are leading exporters of natural gas; and Venezuela, Nigeria, Angola, Colombia, and Algeria are in the top ten petroleum product exporters to the U.S. All of these countries may experience disruptions tied to Year 2000.

Given the cross-border linkages and dependencies, infrastructure providers, especially telecommunications and power providers, are viewed by many as the "Achilles heel" of a successful Year 2000 transition for the financial sector. Progress varies considerably by sector, with the most progress observed in sectors that benefit from strong international coordination.

*Telecommunications* has made the greatest progress under the guidance of the International Telecommunications Union.<sup>8</sup> Further, the globalization of this industry and the privatization of telecommunications systems recently in several large countries have provided a technically advanced platform in major cities. Testing programs between banks indicate that major banks in the world's largest cities will be able to communicate and exchange data. In smaller cities and towns, less is known. The risk of localized breakdowns is not easily estimated.

Year 2000 risk issues are now more behavioral than they are technical or operational in nature. In certain developing countries, where reliable and positive Year 2000 readiness information is lacking, the risk is that a "flight to quality" may occur that could affect market liquidity in those countries. There are clear expectations that trading volumes in certain markets during the

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<sup>8</sup> The International Telecommunications Union (ITU) is a member of the External Consultative Committee of the Joint Year 2000 Council. The ITU is an international organization within which governments and the private sector coordinate global telecommunications networks and services.

century date changeover will be lower. Generally, there is concern that liquidity in certain international markets could decline or "relocate" to perceived safer havens in the days or weeks around the century date change.

### **Summary**

It is difficult to predict accurately the international effects of the Year 2000 computer problem. But, the improvement since year-end 1998 in global awareness and cooperation to meet the Year 2000 challenge is encouraging.

Developing nations still face major challenges finishing their Year 2000 remediation projects in time. Those countries must now turn their attention to putting contingency plans in place to deal with potential disruptions. However, disruptions related to the Year 2000 might have less effect in countries that are developing (vs. developed countries) because service disruptions are more commonplace.

The President's Working Group believes that the financial markets in industrialized countries will be prepared for the Year 2000. Market concerns about the likelihood of Year 2000 disruptions in *major* financial markets continue to decrease as more Year 2000 preparedness information is disclosed. Further, because of active efforts to facilitate cross-border communications and coordination, there is growing confidence that adequate contingency plans and resources will be in place in the major markets to quickly resolve any unexpected problems that might arise.